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economic Review

The Judiciary in Transition

One of the basic hypotheses for successful implementation of reform of the society as whole, and of economic reform above all, is certainly reform of the legal system, and the establishment of the rule of law. A key guarantee of the rule of law is an independent judicature.

Prerequisites for judicial reform

In order to build such a system and status of the judiciary, primarily of courts, it is necessary to satisfy several important conditions within the global reform of society and within judicial reform itself.

Primarily, a consensus of political forces in power is necessary, as well as their genuine willingness to take all required measures in order to establish the rule of law and an independent judiciary. The judicial branch above all must be independent of influence and pressure of the ruling party and its executive and administrative authorities.

This is followed by a full constitutional guarantee of courts' and judges' inde-

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FRY Basic Economic Indicators	2000	2000 1999	XI 2001	XI 2001 X 2001	XI 2001 XI 2000	I-XI 2001 I-XI 2000
GDP growth, in real 1994 prices[a]	...	8.4%	...	...	...	...
Industrial Production	...	10.9%	...	-2.3%	6.3%	-0.7%
Montenegro	...	3.7%	...	5.3%	-9.7%	-2.5%
Serbia	...	11.4%	...	-2.8%	7.5%	-0.6%
Central Serbia	...	12.0%	...	1.8%	4.7%	-5.0%
Vojvodina	...	10.1%	...	-10.1%	13.1%	9.7%
Average nominal net wage - Serbia in Din.[1]	2,389	89.5%	6,869	4.8%	107.9%	132.5%
Real net wage - Serbia [1]	...	5.5%	233	4.1%	43.0%	10.6%
Average net wage - Serbia, in DEM [1]	93	-11.2%	224	4.3%	103.2%	93.3%
Average net wage - Serbia, in DEM [2]	...	...	252	3.8%	...	...
Average gross wage - Serbia, in DEM [2]	...	...	362	3.7%	...	...
Unemployment Rate - registered [3]	28.38%	...	30.0%	0.5%	5.3%	4.4%
Montenegro	...	...	39.1%	0.4%	...	...
Serbia	27.45%	...	29.3%	0.6%	6.1%	5.0%
Current account, in USD millions [4]	-1,298	3.2%	-456	36.9%	...	-5.0%
Trade balance, in USD millions	-1,989	-10.6%	-209	-2.8%	33.1%	41.3%
Export - USD million	1,713	15.0%	151	-3.2%	7.4%	7.7%
Montenegro	157	31.1%	2	-60.0%	-82.4%	3.8%
Serbia	1,411	13.8%	148	-1.3%	16.1%	8.1%
Import - USD million	3,662	12.6%	360	-3.0%	21.0%	27.1%
Montenegro	313	-1.0%	21	0.0%	-25.3%	35.9%
Serbia	3,035	15.6%	336	-3.4%	25.8%	25.7%
Monetary supply (M1), end of period, in DIN billion	29.6	60.7%	56,936.2	0.96%	113.51%	107.99%
Cash	10.3	39.8%	20,422.7	7.11%	123.96%	97.90%
Deposits	19.3	74.9%	36,513.5	-2.18%	108.08%	114.00%
Real money supply, end of period, in DM million	1,043	-26.7%	1,855.2	0.69%	108.68%	91.15%
Hard currency reserves, in million USD (end of period)	524	76.2%	1,083	0.3%	161.5%	...
Discount rate	...	...	1.30%	0.00%	-35.00%	-25.91%
Market interest rate, monthly level	5.84%	37.3%	4.11%	-1.44%	-40.26%	-15.35%
Retail prices – Serbia	...	70.0%	...	1.6%	42.3%	99.3%
Consumer prices – Serbia	...	79.6%	...	1.7%	45.8%	100.5%
Producer prices – Serbia	...	102.6%	...	0.2%	41.2%	96.6%
Average exchange rate – Din./DEM	25.45	103.2%	30.69	0.3%	1.2%	20.0%

[a] Figures refer to FRY without Kosovo
[1] Comparable to the average net wage calculated according to the method applied until June 1, 2001.
[2] By the gross wage calculation methodology applied as of June 1, 2001.
[3] Figures refer to October 2001.
[4] Figures refer to the period January – June 2001.

Political consensus is necessary

pendence; i.e. independence of prosecutors and prosecution, especially with respect to the way of the judicial branch is financed.

A quality legal system and legislation, harmonized with international legal standards, especially EU standards, is one very significant element of the rule of law and an independent judiciary. There is much to be done in that sense.

One of the most important prerequisites for the establishment and functioning of independent courts is a change in way judges (and prosecutors) are elected and discharged. Political and executive authorities dominated these administrative procedures in the former system. Rather than the criteria of expertise and moral background, political alignment was valued, which had dangerous effects on the independence and expertise of judges and prosecutors. A recently passed law establishes a High Judiciary Committee, in which most members are representatives of the highest judicial organs. This stands as a very important step toward establishing an independent judiciary. However, this solution will be applied only for the election of new judges and prosecutors, i.e. it has no influence on the current situation, which resulted from the "old-new" party personnel policy.

Abundant and autonomous financing

A separate fee based budget for the judiciary

A stabile, abundant and autonomous system of financing the judiciary that does not depend on discretionary decisions of the Government or the Minister of Justice is also an important prerequisite for an independent judiciary. The solution should be sought in establishing a separate part of the state budget, assigned to the judiciary (a judicial budget) with a stable independent source of financing (court fees and taxes). This will also enable a significant improvement to the currently very poor material standing in the judiciary (salaries, flats, and equipment). This is even more urgent considering that as opposed to the representatives of the legislative and executive authorities and other professions, judges and prosecutors are justly forbidden by law to engage in any additional gainful activities. Importantly, a satisfactory material standing will raise the level of efficiency and quality of their work, and attract new, young and qualified jurists.

Significant personnel changes to the existing judiciary are very important and urgent, but also a very delicate job. Namely, a number of judges and prosecutors were instrumentalized in the previous decade, having agreed to act as a service of the ruling political leadership and in various ways gravely violated human rights (election fraud, fraudulent political processes, inaccurate unscrupulous and unprofessional work, etc.). The required personnel changes should be carried out with strict obedience to the conditions and procedures regulated by the constitution and laws, and lustration as a set of ethical and legal sanctions for demonstrated human rights violations.

Improvisation instead of firm criteria

Improvised personnel procedures risk political manipulation

Unfortunately, improvisation dominates the process of judicial cleansing without exact legal and moral criteria, which naturally rouses discontent as well as fear of a return to the old system of political background criteria. Therefore, already initiated procedures of election and discharge of judicial officials should be postponed until the High Judiciary Committee is fully functional.

A very important prerequisite for an independent judicature is high expertise, professionalism, moral criteria and courage among judges and prosecutors. There is no independent court without independent and courageous judges. These prerequisites cannot be provided through legislation but are primarily an inseparable part of a personal psychological, intellectual and moral structure and responsibility in pursuing judiciary function.

Finally, the rule of law and an independent judiciary cannot be enacted by a law or a decree, but will be at the same time a factor and an integral part and a product of the overall and thorough social, political and economic reform, democratic metamorphosis and moral healing of the society.

Legal Reform in Transition: A Preliminary Overview

The objective of post communistic societies in transition is to establish a state of laws, not of men. This objective is assigned by the development of civilization in that it cannot be abandoned by any authentic political will. This is an objective of strategic importance with no alternative in the modern world. On the path of its realization, it is not easy to set the strategy of reforms – areas, priorities, intensity, time frame and mutual adjustment. However, the rule is not only a prize and privilege, but also a burden and obligation, and consequently those who make decisions bear historic responsibility for the project and state through which we will either come closer to the values of the Enlightened tradition or remain on the outskirts of the opportunities of the epoch.

Establishing a state of laws - an objective assigned by civilization development

The last year may already serve as a basis for a conclusion on how far we have proceeded and what is to be done. While colloquial evaluation is given through the percentage of growing or falling public content or discontent, politicians are accusing or defending each other, referring to the imperative of legal means or to the priority of the common good, legitimacy, legality, logic of reforms, opportunism, pragmatism, as they qualify the measures they support or oppose. Some doctrinaire attitudes shaped on the basis of the experience of other states, in that sense can give a firmer, or even more objective ground for understanding the processes we act within.

The Answer of Science

For that purpose, it is sensible to introduce answers that science offers on two very important questions. The first one is if the rule of law initially and in all aspects can be erected in a legal manner, or if the rule of law can serve as an organizational principle for changing the regime. And the second one, as if the theoretical model of the rule of law, with the contents of civilizational level, suffer some alterations related to the circumstances, i.e. context of transition. The answer on the first question is no, and on the second yes.

Two important questions on legal reform

If we put aside the qualification of initial change as revolutionary or non-revolutionary, together with the related continuity or discontinuity of state and legal system, i.e. recognizing the situations in which the crisis of the regime and the crisis of the state are united or the crisis of regime by itself imposed the change, then the first step of transformation to liberal constitutional democracy as a condition sine qua non is the establishment of private ownership and a market economy.

The reform policy in Yugoslavia stays in front of the polarized, but equally valid interests that cannot be met at the same time. On one side, there are the values of the rule of law and righteousness – return of the previously evicted propriety to its former owners, while on the other side there are requirements of political utilitarianism and efficiency – offering that propriety to those whose investments will provide its most efficient usage.

Within the first solution there is already a conflict between two principles of the rule of law: legal prohibition of retroactivity of laws is opposed to speeding of reforms and efficiency, but offers a future burdened by the unrevised injustice from the past, which will not, as experience shows, contribute to the authority of new leadership. This example shows that reformist measures, which have been undertaken in transition countries cannot be, at least not all of them and not every time, pursued in the way that corresponds to the principles of the rule of law. After all, in history the rule of law had been established by canceling the legally acquired rank-related rights. Consequently, the ways of establishing rule-based institutions in post communist societies that do not comply with the principles of the rule of law can be by analogy justified. Certainly, only as far as the suspension of individual rights based on the former laws is necessary condition for its establishment.

The first step - establish private ownership and a market economy

Departures from the Theoretical Model

As for the cause of context and possible and necessary alteration of the rule of law contents in transition, it is worthwhile introducing one paradoxical impression: the rule of law in post communist societies, while providing institutional and procedural guarantees of individual rights and liberties, must also provide conditions for its own constitution, analogous with the hypothesis that are usually established through "pre-legal state" forces of social system.

Three reasons for departure

Consequently, the first departure from the theoretical model of limited government represents a particular relativism on the principle of a division of power. Concentration or relative power is related to the pursuance of those activities that otherwise are not attributed to the classic functions of this type of state. There are three major reasons that suggests and justifies such a departure: 1) Overcoming crisis and preventing the return of old forms of centralized statism; 2) Consolidation and political integration of society overburdened with economic, cultural, regional, ethnic and religious differences and disputes, and 3) Providing the existence and functioning of an uncontrolled civil sphere of society.

Science warns that this is an "extremely risky architectural project with no precedent", and thus it is necessary to provide control, prevent abuse and limit the risk to the lowest possible extent. Such guarantees are provided by an independent and impartial judiciary, which indicates that the reform of the judiciary is a priority. This reform should be carried out in three large areas: a) normative; b) material and c) professional.

Although the appropriate measures have been taken in this field, the outcomes are not as they could have been.

Guarantees of an independent and impartial judiciary

Draft of the Law

With assistance of non-governmental organizations, the Ministry of Justice could immediately have, in the form of a working version a model of a Law on Courts and Judges which had already been prepared in 1999, harmonized with the European standards in that area. This draft did not reach the competent authority through institutions (sic!), but in a kind of private arrangement, owing to the fact that the working group of the Ministry consisted of almost the same persons who had created the aforementioned model and thus it served as a basis for discussion. In the meantime, referring to saving of time, the DSS offered its own set of laws, which was passed in the Parliament, published in the Official Register and is expected to be put in force, with slight time-frame exceptions as of January 1, 2001.

Regardless of the source, the legislator could have had a text of the law with better solutions, which is not unimportant if we keep in mind that durability of (a good) law is one of the characteristics that makes the rule of law an original principle of a rule based state. Thus, the laws that have just been passed will, apart from criticism, certainly be subject to serious reconstruction over the course of time.

Three areas for judicial reform

For the third area as well, the non-governmental expert team offered an appropriate solution. Since there could not be independent and impartial court and judges without very high expertise, the law should reform the current status of the official judicial exam, and further on, provide opportunities for advanced training of judicial officials. A program of organization and activities of such a center have been made, according to the experiences of other countries and the needs the judiciary officials in Serbia expressed in a poll, while the competent European institutions and relevant foreign governmental and non-governmental organization showed the willingness to give financial support.

At present, a contract for founding the Center has been made between the Serbian Government, i.e. Ministry of Justice, and the Judges' Association of Serbia; the working premises have been provided, as well. It would be good if the Ministry continues to undertake or support, as in this case, the activities through which it will express real understanding and attempt to prove its readiness to return the country to the courses of Europe through the reform of the judiciary.

Harmonization of Legislation to EU Standards

There is often public confusion regarding the contents and meaning of the term *harmonization* due to imprecise or even wrong application of terminology in this area. This results from unadjusted interpretation of the technical terms from the foreign legal systems and that it is about relatively new legal forms. It particularly refers to distinguishing two essentially different terms - *unification*, i.e. identical regulations, and *harmonization*, i.e. approach or adjustment of contents of particular legal systems.

Unification in international law requires full equalization of legal enactments i.e. adoption of particular acts that the states accept and implement in their legal systems as such, and may be implied to either regulations in force in different regions within the same country (internal unification) or those in force in different countries (international unification). There are two basic forms of international unification on the criteria of the level on which they are implemented – regional or universal. The regional is carried out within regional organizations (for example, the Council of Europe, the European Union), while the universal is applied within the world international organizations (for example, the NAFTA, the World Trade Organization). In both cases, the most common subject of unification and harmonization is the area of private law of the contracting states, which includes the transfer of particular limited legislative prerogatives in the area of civil and commercial matters on the bodies of the organization in question. In this way another phenomenon appears that is super-national character of the so created law. As an advantage of this technique, it is stressed that the adoption of unique regulations rules out the possibility of legal collision, and consequently, complicated procedures for application of the collision regulations, which determine the competent law become unnecessary.

Modern trends show that it becomes more often that the harmonization, i.e. mutual approaching which does not gravitate toward being identical, but toward convergence of various legal systems, is imposed as the most appropriate method. This technique *de facto* reduces differences and significant departures in regulations of various legal systems and avoids creation of separate legal texts that must be implemented identically.

In the European Union (hereinafter: EU) and its legal system, the term harmonization (*Fr. l'harmonization, Ger. angleichung*) means the process of adjustment in solutions of national legislation of the member states to the Community regulations, which are exclusively the ones included in the EU Directives. Obligation of harmonization of internal legislation the member-states undertake through signing the Founding Contract, i.e. the Rome Contract "to the extent necessary for implementation of common objectives." The central objectives of the European Union had been confined to largely economic issues for a long time, primarily through the establishment of the custom union and joint, i.e. united market. As it depends to the greatest extent on adequate commercial legislation whose provisions should provide equality of common subjects, free turnover of goods, liberated moving of entities, services and capital, the adjustment in national legislation of the member-states as a legal aim has become priority, together with economic objectives. Under the 1992 Mactricht Contract, the existing objectives were widened to establishment of economic and monetary union, with new political objectives.

According to this, the fields where the further harmonization is required were enlarged. It seems that the EU is to evolve from "the union of states" into "the united state", which would require full unification of the member-states' legal codes. The traces of this idea might be identified in declaration from the last Presidency Meeting in Laeken (Belgium) on December 14 and 15, 2001, as well as in adoption of principles of European Contract Law by the Landan Commission, which is often emphasized as the basic stone of the future European Civil Code and further creation of the ius communae europeum.

In the view of the unification and harmonization technique, they might be carried out through the so-called *bottom-up* method, which is based on activities of non-legislative organs, for example legal theoreticians and practitioners, and involve free option of contracting sides and courts to apply European systems as a chosen legislation or to remain out of it. An example of this technique is the already mentioned Lando's principles. Another method is the so-called method "*from above*" and includes an obligation of contracting parties and courts to apply the adopted regulations since they are imposed by the EU authorities or by legislative authorities of the member-states. However, it seems too ambitious and hard to unify all the areas of the civil law, especially considering the fact that it is not necessary to unify some of them fully, in terms of objectives set by the EU (family law, for example). This statement is proved by the line from the Preamble of the Resolution of European Parliament, which says that the unification might be carried out in those areas of private law, which are of a great importance for development of united market, such as the Contract law, for example. The 1999 Special Study of the European Parliament also states that harmonization should be limited to those areas of private law related to the economy-oriented fields.

In relation to *the countries that are not the EU members*, either applicant countries or the third countries that do not want to access the EU, harmonization shows a completely different nature.

Namely, legislative harmonization is a unilateral process, either mandatory or voluntary. This means that the state that wishes to join the EU is obliged to adjust its legal system to the Community system. It is important to underline that it is a dynamic process since harmonization must follow development of the EU legal system. According to the experience of the applicant countries, this proved to be a very hard task since it is about the law that is partly precedent and created primarily through adoption of Regulations and Directives, whereby the interpretation of the Contract's provisions in practice of the European Court of Justice has significant impact. Central and Eastern Europe countries (hereinafter: CEE), as well as Cyprus, Malta and Turkey, the candidates for so-called "big boom" (enlargement of the EU with 10 new members) planned for 2004, have soon realized this having signed the European Agreements, after successful examination of obligations based on the associated membership, these countries started harmonization in the areas predicted by the White Book, and emphasized as priorities in the Contracts themselves.

Some other European countries, although neither having institutional connections with the EU nor undertaking obligation for harmonization, have initiated harmonization of their internal legislation. These countries adjust their internal legislation to the EU regulations as a part of a strategy for establishing firmer economic relations with the EU. Therefore, the process is voluntary and in any event – desirable. The most interesting example is Switzerland, which, after having pursued the referendum, decided not to join the EU. Regardless of this, for last ten years all internal regulations in Switzerland have been adopted after being carefully examined as if they are harmonized with corresponding regulations of the European law.

About Community Legislation

Successful implementation of harmonization requires knowledge of the community law, i.e. the EU legal system.

Based on specific international contracts, as a primary resource of the Community law that established European integration (the Rome and Paris Contracts), this law is actually an instrument for successful integration of the member-states. The Founding Contracts are characterized by the method of negative integration, which prohibit particular behavior of the member-states that is opposed to jointly set goals and liberties.

However, these Contracts were only the initiative step for adoption of a wide range of derivative regulations (regulations, directives and decisions), followed by standards, documents on joint policies, communiqués, recommendations and large and very significant judicial law, as from the recently called "aquis communitaire".

Furthermore, national legislation of the member-states, which belong to different legal traditions, has also influenced the establishment of such a system. Some belong to the group of so-called continental legislative systems based on the Roman legal tradition, while the others are a part of the common law system, which is especially recognized in the organization of the European Court of Justice. The EU legal system encompasses the existing national systems and, under such conditions, a new special legal nature of the EU has been developed and accepted.

The EU derivative or secondary law, which is actually the instrument of unification and harmonization, relative to the objective that is to be achieved and the extent of unification of the solutions, include the methods of positive legal integration. This means that the member-states are obliged to intervene in specific manner in their internal legislative systems in accordance to the legal strength of particular legal act. Especially significant are: Regulations (*Fr. Reglements, Ger. Verordnung*), Directives (*Fr. Directives, Ger. Richtlinie*) and Decisions (*Fr. Decisions, Ger. Entscheidung / Beschluss*). Regulations are directly applied in the member-states, meaning that the member-state is obliged to apply fully, unconditionally and without any changes these as its internal legal documents. Directives are binding to the member-states, in terms of objective but not concerning the ways of realization and implementation into internal legislation, and consequently the member-states are free to choose the most appropriate form. Decisions are made with respect to individual cases and are mandatory for the addresser and the addressee.

The system set like this must be unconditionally and fully accepted by the applicant-countries.

Redefining Relations Between FRY and the EU

The EU Council, satisfied with the results of the October 2000 elections and the process of democratization in the FRY, issued the Regulation No. 2563/2000, which altered previously enforced Regulations 2563/2000 and 2820/98, which had suspended relations and imposed sanctions on the FRY. These regulations approve trade preferetials, since the FRY is one of the key countries for stabilization process in the region.

Geographical position and economic, cultural, historical, political, geostrategic and civilizational attachment to Europe, as well as Yugoslav determination to restore its position within international community, especially within the family of European peoples, correspond to the EU orientation to meet to the challenges of globalization process through enlarging its territory and increasing the total economic level of the continent. Accession of the FRY and other former republics of SFRY to the EU will bring about physical connection of the EU territory since it would solve the

problem of the distinction and isolation of Greece.

Economic structure, national resources and labor potentials are only a few positive prerequisites for strengthening the relations and their establishment on new grounds. The FRY is at the beginning of reconstruction of the economy destroyed by sanctions and bombardment, and its interest for cooperation with the EU is clear: improvement of mutual cooperation through liberalization of goods and services flows, establishment of conditions for the inflow of foreign investments, market opening, inflow of information and modern technologies, versatile forms of non-economic cooperation.

Mutual interest in firm connections could be clearly recognized in the dynamic of changes in relations, as well. Thus, the FRY is a state that will become a member of the Council of Europe in a short period (it is estimated as of next autumn), which is the first step toward EU membership. Also, by 2004 the FRY is to sign the Agreement on Stabilization and Association, while the full membership is to be expected by 2010.

Immediate initiation of the process of harmonization of domestic legislation with the Community law in the priority areas will largely facilitate the process. Looking from the outside, it would prove the FRY ability to fully accept the "aquis comunitaire" but also its political determination for intensive process of integration. From the internal perspective, it will enable our economy to adjust to the positive regulations of the Community law even prior to full integration into the internal market and to become an equal partner to the EU economic subjects. The FRY has obvious advantages at different levels. For example, in the field of reconstruction and strengthening of economy, which is the one of the priority objectives, if we want to attract foreign investors, it is necessary to offer them a familiar legal environment that guarantees the security of investments. Furthermore, a consistent and efficient legal framework will enable legal safety to both domestic economic subjects and citizens in general. The impact of European regulations and standards on national legislation system will be extremely significant, as well. It is necessary to establish new, more efficient systems and mechanisms of judicial supervision, as well. In this way, the EU legal standards will enter into all areas of the legislative system and social life, changing the widely spread public hostility toward the EU. The final outcome will be that we start to think and behave as all other European peoples.

Harmonization in Practice

Based on experiences from the previous enlargements and aware that the accession procedure is complicated, in 1995 the EU issued the White Book for preparation of the associated CEE countries for integration into internal market. This document predicts the possible model of harmonization of regulations by listing the areas where the harmonization of domestic regulations is desirable, and the schedule and dynamics of their adjustment. Although the White Book was initially made for the associated countries of Central Europe the EU had signed the so-called European Contracts with, this book can be useful for the third countries that have not undertaken the obligation of harmonization yet. The White Book is a model in legal (technical) sense, but for each candidate country, the separate "joint consultative working group" is formed, consisting of domestic and EU experts. Based on specific characteristics of each country and on the set priorities, this working group determines the legal areas in which the harmonization is necessary and appropriate, while preparing the Agreement on Stability and Association.

In the case of Yugoslavia, there is an additional problem, related to probable redefining of relations within the federation. If the situation remains unchanged, the process of harmonization will be much easier and implemented according to the existing division of prerogatives between the federation and republics. However, if the FRY evolves into a loose federation, the republics will take on prerogatives for a large number of legal regulations. The process of harmonization in that case will be much longer, since the prior distribution of prerogatives will be required.

In the view of contents, it might be said that the system of regulations (laws) in the FRY is sufficiently adjusted to the Community law. Especially the regulations of commercial law were made with the European code as a model. Thus, the first Serbian Commercial Law of 1860 was made under the influence of the French *Code de commerce*, while in creation of the 1978 Contract Law and the 1996 Law on Enterprises, the experiences of the most developed European countries were used, as well, even though there had not been obligation of harmonization at the time.

As an example, we may compare the articles 85 (in new numeration system 81) and 86 (now 82) of the Rome Contract, that stands as a basis for the EU competitiveness law, and the articles 3 and 4 of the domestic 1996 Anti-monopoly Law. Through detail analysis of these articles, we may conclude that, except for particular differences in terminology, they are basically identical. However, in the area of the competitive rights, as well as in other legal areas that require harmonization, the key problem is not a lack of adjusted system of legal regulations, but practical implementation of these provisions by the competent organs, which stand as the underlying shortcoming of the Yugoslav regulation. Efficiency in implementation of regulations is one of the main characteristics of the EU organs' work, both the Commission and the Court of Justice. For real "common" implementation, it is therefore necessary to provide political and economic prerequisites in the domestic legislative system and widen prerogatives of the competent organs as to avoid the risk that harmonization will remain solely a formal act.

Without any doubt, the major problem will be adjustment of sub-legal enactments that contain particular technical regulations and standards in various fields of economy. The most obsta-

cles are expected in the area of agriculture, which is estimated as the Yugoslav most competitive area in respect of the access to the joint market, where the EU enacted a large number of regulations, directives and recommendations. In order to be competitive on the united internal market of the EU, for example in the field of hog-breeding and pork selling, it is necessary that the competent organs adopt appropriate sub-legal enactments that will, for example, require the farms to establish the control of maximum level of noise of 85 decibels, minimum intensity of light of 40 lux, as well as to organize the production in the way that the pigs have constant access to sufficient amount of fresh water, hey and other materials for burrowing. The producers will have to stop using veterinary methods such as castration or snout mutilation, and will be obliged to undertake all preventive measures as to avoid applying such methods, with respect to particular regulations for group cultivation of hogs. (These solutions are required by the Council of Europe Directives of 2001).

From everything stated so far, it is obvious that the professionals of different expertise (jurists and the experts for the field in question) will have to cooperate in the process of harmonization; it is necessary to organize additional education of the employed in the state organs for successful realization of this complicated task. It includes skills for identifying the EU regulations in particular field, identifying the existence or nonexistence of appropriate domestic regulation and proposal of the best solution for the case in question. In the process of drafting the proposals for laws and sub-legal enactments, it is necessary to take into consideration the solutions that exist in the EU legislation as to approach this activity in a rational and professional way and to avoid working on two tracks, meaning that the proposals should be firstly submitted to the legislative authorities, which will then submit them on evaluation of harmonization with the EU law, and only then those proposals enter the Parliamentary procedure.

Identifying Regulations for Harmonization

The experiences of the transition countries showed that is worthwhile creating special tables, i.e. "harmonygrams" that presents the problem and its solution in schematic form, as to have easier and better orientation among the plenty of internal and the EU regulations that must be harmonized. Thus, particular columns will include: the full title of the EU regulation and its translation, with the data on its source (number of The EU Official Journal); a short description of the areas that are regulated by the regulation in question; a list of domestic regulations that regulate the same area and the data on their sources (Republic or Federal Official Register), and, if the matter is not regulated, a note that there is a legal gap; preliminary assessment on adjustment of the domestic regulation with the EU regulation, and finally, a proposal for domestic regulation. This is just one possible example.

TITEL OF THE EU REGULATION	AREA OF IMPLEMENTATION	CORRESPONDING DOMESTIC REGULATION	DEGREE OF ADJUSTMENT	PROPOSAL OF DOMESTIC REGULATION
1. Directive 93/36/EEC (OJ L 199, 9.8.1993)	Coordination of the procedure of approving contracts for public acquisitions	For exmp. Law on acquisition of goods and cession of public works (The People's Papers 142/97)	adjusted	-
2. Directive 93/73/EEC (OJ L 199, 9.8.1993)	Coordination of the procedure for cession on public works	The same	unadjusted	To be adjusted the existing law
3. Directive 93/38/EEC (OJ L 199, 9.8.1993)	Coordination of the acquisition for legal entities that are engaged in the sector of water, energy, transportation and telecommunication	The same	legal gap	To be added into the existing law
4. Directive92/50/EEC (OJ L 209, 24.7. 1993)	Coordination of procedure for approving the contract on public services	The same	legal gap	To be added into the existing law
5. Directive 89/665/EEC (OJ L 295, 30.12.1989)	Coordination of laws, regulations and administrative decisions related to the application of the revision procedure in the approval of contracts on public acquisitions and of contracts on public works	The same	legal gap	To be added into the existing law
6. Directive 92/13/EEC (OJ L 76, 23.3.1992)	Adjustment for laws, regulations and administrative provisions related to application of the Community regulations on acquisition procedures of legal entities engaged in the sector of water, energy, transport and telecommunication	The same	unadjusted	To be adjusted the existing law

Accession to the World Trade Organization

A return of Yugoslavia to international economic organizations began in December 2000, when it restored its membership in the International Monetary Fund (IMF). Regulation of its status in the IMF not only allows Yugoslavia access to favorable credits for foreign currency reserves, but also verification of the contents and success in implementation of the macroeconomic stabilization program. This was a necessary condition for regulating relations with other financial organizations and bilateral creditors: in May 2001, Yugoslavia restored its World Bank membership, while in November a write-off of a record part of its debt was approved by the Paris Club of creditors.

No dilemma on desirability of globalization

These successful achievements stand as the first stage of the reintegration of Yugoslavia into the world economy. The world we are beginning to cooperate with again has changed during the 10 years of our isolation. Huge changes are not related only to new technologies, market expansion and the introduction of new ways for running a business. In the course of the 1990s, the concept of a liberal and market-oriented economy had lost any serious alternative and became accepted by almost all states in the world. Regardless of the debates on the kind and degree of advantages and disadvantages it brings, economic globalization became a dominant process that cannot be stopped. Therefore, the question is not if globalization is desirable, but at what speed and in what ways we can become a part of that process. The objective is to find institutional solutions that will enable achieving the largest possible benefits for all, while eliminating negative side effects.

The most important move that should be made in that sense is accession to the World Trade Organization and the European Union. Each one is very hard and requires a lot of effort, time and patience, but also brings significant expenses. Therefore, it is very important to find ways to shorten the required time as much as possible and to minimize expenses. At the same time, on a domestic level it is necessary to reform the banking sector, build financial markets and provide a necessary level of financial discipline and protection of property rights.

Shorting the time – cutting the costs

The Federal and Republic Parliaments, as the holders of legislative authority and executors of the citizens' electoral will, have a decisive responsibility and obligation to carry out legislative and institutional changes on the strategic course of legal harmonization with Europe and consequently with the WTO. This will direct the country toward fast and stable social development and economic growth based on export expansion and reintegration in the world economy. Although harmonization imposes certain legislative solutions, it will not violate the sovereignty of Yugoslavia more or less than it is the case with the current and future EU or WTO members.

Administration of the state on this path requires clear articulation of the desired objective and strategic decisions that will set the layout of moves and insure achievement of the noted objective. On first sight, this task is much facilitated in our case because the baselines of the path are already drafted in the contracts of the organizations we attempt to join (the WTO and the EU), as well as with the experiences of the advanced transition countries. Such favorable conditions, however, could be lost easily if political parties continue with the practice of blocking the changes and raising tensions over each article of every reform law. For that purpose, it is necessary to reach a state consensus on the fact that accession to the world economy has no alternative, which will not be easy with currently present of strong interest groups raised on a tradition of protectionism and isolationism.

The WTO – Launching and Functions

Articulation of objective and decisions

Even before World War II ended, an idea of the necessity of economic cooperation and mutual assistance of sovereign states had largely existed in the economic world. An attitude that three international organizations should be formed has crystallized: the first one that would monitor financial flows and assist in solving the problems of payment balance; the second one that would deal with developmental issues and the last one that would deal with international trade. The first two, the International Monetary Fund and the World Bank were founded in 1944, while a consensus for the last one could not be reached at the time.

In the meantime, a number of states initiated discussions on laying down the rules and reduction of tariff rates that would be applied on mutual exchange. These agreements resulted in the General Agreement on Tariffs and Trade (GATT) in 1947. The temporary contract, as it was supposed to be at first, in time developed into the form of international forum, wherein the measures on world trade liberalization were discussed. It had worked in the rounds of negotiations, which would have always

resulted in progressive facilitation of the world trade flows (while the adopted decisions were binding for all contracting states. The problems it tended to resolve were gradually multiplying and complicating in the course of an increase in the volume of world trade and, consequently it followed clearly that those issues could not be dealt with in an ad hoc forum.

Thus, in 1995, fifty years after an unsuccessful first attempt, the World Trade Organization as an organ that administers international trade was launched. Its purpose was three folded:

- Encourage world trade liberalization,
- Provide a forum for trade negotiations, and
- Offer a body for trade dispute settlement.

Three-fold purpose of the WTO

The main principles of the WTO are the following:

- **Non-discrimination.** This principle means that all members are obliged to give no trading partner less favorable conditions than those given to any other member, (Clause of the most favored nation), as well as not to maintain discrimination between domestic and foreign entities on domestic market (Clause of national treatment).
- **Trade liberalization.**
- **Predictability.** Measures of trade policy must be transparent, and the state is obliged not to make arbitrary decisions but to act in compliance with the rules laid down within the WTO.
- **Competitiveness.** Unfair trade practices that, among everything else, is reflected in subsidized and dumping exports should be as much as possible diminished and eliminated.
- **Assistance to less developed countries.**

The WTO head office is in Geneva. The chief body is the Ministerial Conference that is held at least once in two years, while the General Council performs its role in the meantime. Apart from these two bodies, there is a wide range of lower organs – committees, councils, bodies and working groups that cover in more details particular aspects of international trade. Decisions are made by consensus. If this is not possible, the decisions are made by 2/3 or _ majority, on the principle one state – one vote.

Admission Procedure

A principle: one country - one vote

A state or a customs union that wishes to be a WTO member must first submit a request to the Director-General. Then a Working Party, which is open for all interested members, is formed. Prior to the first meeting of the Working Party, an interested state – candidate must create a Memorandum on the foreign trade regime with a detail description of the foreign trade policy measures, existing tariff rates, other forms of non-tariff protection, as well as copies of the relevant laws and other documents. Only after all interested states are introduced to the Memorandum, the Working Party meets for the first time. The first meeting focuses on identifying what elements of the foreign trade regime are in conformity with the WTO requirements, and at every following meeting concrete measures that the applicant country should carry out are settled. At the same time, there are bilateral talks with interested members. After all negotiations are finished, the Working Party prepares a Report, which also contains a Proposal on Admission Protocol. It is submitted to the Ministerial Conference or General Council for adoption, which decides on admission of a new member by a 2/3 majority. Thirty days after a decision was made, an applicant officially becomes a WTO member.

The FRY submitted its application for admission to the World Trade Organization in January 2001, while in February the same year a Working Party was launched, headed by the Czech Ambassador. The Memorandum on a foreign trade regime is underway and is expected to be submitted to the WTO Secretariat by mid 2002, and then distributed among all members. Of all republics of the former SFRY, only Slovenia and Croatia are the WTO members: Slovenia as a founder and Croatia as of November 2000. Macedonia submitted the Memorandum during 2000 and Bosnia and Herzegovina in 2001, and in that sense are ahead of us, but the preparation of their Memoranda lasted much longer.

It is hard to estimate how long the admission of our country to the WTO could take. Optimistic estimations imply that this can be achieved in 2.5 to 3 years. It follows clearly from the description of the procedure, as well as from the experiences of the countries that were admitted after 1995 that the process is not at all simple. In the case of Croatia, it took seven years from application of the request to the moment of admission; as for Russia, the process started eight years ago and has not been fin-

ished yet. China had 15-year negotiations before becoming a member in late 2001.

Adjustment of our foreign trade and other relevant regulations and procedures with the requirements set by the WTO organs and members should be put in context of the process of harmonization of our legislation with European Union legislation. Those two processes are simultaneous and are identical in a great number of points. In those aspects where the EU sets more strict requests than the WTO, it would be wise to accept the EU solutions right away.

Facts About the WTO

Activities of the international economic institutions are followed by numerous controversial comments. When it is about the WTO, the debates of both its supporters and opponents are directed toward the similar aspects of its existence: trade liberalization, the international character of the organization and obligation of the sovereign state to act in compliance with its rules, the position of small countries, the protection of intellectual propriety rights, etc.

Accession possible in 2.5 - 3 years

1. Impact of foreign trade liberalization on a domestic country

Foreign trade liberalization encompasses a number of measures, wherein the most important are: tariff rate reduction, elimination of export subsidies and quotas, transparent and predictable trade policy, equalization of business conditions between states, anti-dumping exports measures. Its impact is, however, controversial: the supporters argue that liberalized trade is beneficial for all in the long-term; the opponents claim that there cannot be real liberal trade and consequently only the big and rich benefit from partial liberalization (both states and particular enterprises and individuals), while the small and poor always suffer a loss.

Foreign trade liberalization has numerous and complicated effects on macro level (i.e. on the state as whole)

- **Exchange flows are facilitated** in that export and import procedures are simplified and unified. Studies show that this may save 2-15% of transaction costs. It is estimated that the Uruguay Round negotiations brought about direct savings of approximately 200 billion USD per year on the international level, while the world income growth ranged between 200 to 500 billion USD.
- **Exports become cheaper,** and thus indirectly improve the competitive position of imports.
- **Elimination of subsidies** and anti-dumping measures reduce exports of such goods…
- ... But, at the same time, we are also protected from similar unfair practices pursued by other countries.
- Furthermore, the elimination of subsidies by developed countries gives the opportunity for less developed ones to become more competitive in export of such goods. The European Union, as the world's largest food exporter, has such position owing to subsidies for the largest part of its agricultural export. Elimination of these subsidies, along with reduction of import barriers, will help less developed countries to increase the value of their exports both to the EU and other world markets. As an illustration, agricultural subsidies in the OECD countries in the 1990s averaged about 360 billion USD per year, which is twice as much as the total income of all least-developed countries in the world. By eliminating all obstacles to the import of agricultural products, it is estimated that the export of these products from developing countries will increase by 27%.
- **Poverty is reduced.** World Bank surveys suggest that for each increasing percent of foreign trade share in GNP, income of the employed grows by 0.5 – 2%, while that growth led to the growth in income of the poor in the same percentage. Thus, in the period 1990-1998, the percentage of the poor (those who live on less than 1 USD a day) in the world was reduced from 29% to 24%, mainly in Eastern Asia (from 28% to 15%), which experienced intensive opening and dynamic economic growth over the same period. Opening of China, for example, led to income growth per capita from 1,460 USD in 1980 to 4,120 USD in 1999.
- General conclusions on growing inequality within the society cannot be drawn: in some countries, the Gini quotient grew, while in others it fell. Disparity in salaries between high skilled and unskilled labor deepened more in developed countries since the trade liberalization increased the demand for the former, while the demand for the latter decreased and was allocated toward developing countries with cheap labor. As an outcome of the same process, in the developing countries the unskilled labor income increased, thus reducing inequality.

Measures for foreign trade liberalization

Who benefits more – the rich or the poor?

- On the states' level, the gap between the rich and the poor has deepened over the recent decades. It was shown, however, that even though rich countries grew on average faster than the poor (in the period 1960-1995, the rich grew an average of 2% per year, while the poor grew by 1%), the fastest growth was registered in undeveloped countries that had opened (with the growth rate of over 2%). In the course of the 1990s, the income per capita in developing countries which took part in the globalization process grew three times faster than in those which did not. A good example is a ratio of income in America and China: while the Americans were earning 12.5 times more than the Chinese in 1980, after an intensive process of opening of Chinese economy that ratio was reduced to 7.4 times in 1999.
- It encourages the development of small and medium enterprises. As opposite to the opinions that seem to be widespread in our country, the existence of small and medium enterprises is related to exports, at least to the same extent as enterprise giants are. In the USA, for example, small and medium enterprises produced 97% of exports, while 88% of these firms had less than 100 employees.

2. Liberalization reduces costs and improves efficiency of the economy

- **INPUTS BECOME CHEAPER.** Importing raw materials, semi-finished products, equipment and services become cheaper.
- **FACILITATED ACCESS TO FOREIGN MARKETS** raises the quality and value of exports.
- **MONOPOLIES ARE DISINTEGRATED**
- **FACILITATED EXPORT OF NEW TECHNOLOGIES AND INTELECTUAL PROPRIETY** can improve business to a great extent. The obvious example is the application of computer technology toward which all enterprises are directed nowadays. If there were not liberalized trade, the possibility for purchasing computers by countries that did not produce them (which is the largest number of countries) would be limited, while the costs of purchasing and maintenance would be significantly higher.
- There are possibilities for production of new and higher quality products and services.

3. Trade is beneficial for consumers

Through liberalization to faster economic growth

- **PRICES ARE REDUCED.** There are numerous examples of the loss consumers face because, for the sake of domestic production protection, they are forced to purchase products at significantly higher prices. Thus, in the USA, which limited the import of the Japanese cars in the period 1981-1984, the price of cars increased by 41%. Other surveys indicate that food expenses for an average four-member family in the European Union, due to the Community agriculture protection measures are up by 1,500 USD per year, while the overall clothing expenses for British consumers are up by 500 million pounds a year.
- **ELIMINATION OF EXPORT SUBSIDIES AND DUMPING** that increase prices, which might be beneficial for the producers of the surveyed products, but harm consumers.
- Expansion of assortments of products and services, with the quality being improved. Facilitation of exports directly contributes to the available stocks of goods growth at domestic market; indirect contribution refers to the improvement of production opportunities of the domestic economy, as described earlier.
- **INCREASE IN STANDARD OF LIVING.** Most factors connected to foreign trade liberalization affect the increase in standard of living (in rare cases they might affect its fall, as well). The most obvious impact is achieved through the growth of export income and consequently the growth of individual income. A secondary impact is achieved through a decrease in prices on the domestic market and thus, an increase in the population's purchasing power.

4. Protection of domestic / new industry

Supporters of domestic industry protection (which is carried out through high tariff rates, quotas and other forms of import protection) justify their attitude with two statements. The first one is that foreign competition may bring about the bankruptcy of many companies, even the whole economic sectors, a huge discharge of the employed, social unrest, etc. The second one starts from the fact that even the leading industrial countries (above all Germany and the USA) had built their power through protection of their developing industries in the course of the XIX century.

We will try to find out through several relevant facts whether these statements are well based and whether, if we assume they are right, they will produce positive results.

- The protection of several industries could lead to their development. But the harm, due to the more expensive and / or less quality inputs would be suffered by all other industries that are downstream from their production process. Consumers would be harmed too, as well as the economy in general, since it was proved that net effects of such measures are by rule negative.
- Who is able to set criteria for the decisions on what sectors, by what measures and for how long will be protected, that would be accepted by all participants in economic life?
- For aforementioned reasons, there is a great risk that such a decision would be interfered with by corruption and interest lobbies.
- Domestic companies in the protected industry practically have a monopolistic position, and thus the market distortions come about.
- Even if we put aside the aforementioned arguments, the fact is that other countries in no way would sit idle. They would introduce reciprocal measures on the restriction of our exports, which are, through aggravated sales possibilities on foreign markets, likely to exceed in a negative way possible benefits from protection of particular industries.
- Above all, the fact is that neither the political nor economic environment today is the same as a hundred years ago.

Arguments for protectionism

5. Position of small and undeveloped countries

A very intensive debate between the supporters and opponents of the WTO and other international economic organizations is related to the position and benefits or harm gained by small countries. Widespread claims suggest that they are put in an inferior position since they do not have enough strength to oppose the pressure of big countries and transnational corporations. The facts point to the following:

- Decisions in the WTO, as opposed to the other international organizations, are made by consensus. Only when it is not possible to reach consensus are decisions made by two-thirds or three-fourths majority.
- In the case of majoritarian decision-making, a system of one country – one vote is applied. (In other international institutions number of votes usually depends on the quota of particular country, which is related to its economic strength).
- More than three-quarters of the WTO members are developing and transition countries.

In short, the decision-making system within the WTO in no way discriminates against small and undeveloped countries. On the contrary, the existing mechanisms put them in an equal or even privileged position:

- Many provisions of agreements made within the WTO favor developing countries in that they are given a longer time-frame for implementation of particular agreements (least-developed countries are even not obliged to comply with all provisions), while preferential treatment of the developing countries is one of the exceptions from the clause of the most favored nation.
- Developing and transition countries have the WTO organs technical assistance available. It includes, above all, organizing seminars and workshops for government officials in those countries, as well as initiation of information centers that provide information on the mentioned countries.
- Within the WTO, there is a Committee for Development and Trade, which monitors the implementation of specific provisions related to developing countries, directs technical assistance and especially deals with the position and problems of least-developed countries. Despite the statements that the benefits of trade liberalization are always seized by big and developed countries while the less developed ones fail, the facts points to the opposite.
- In small countries, due to the high degree of import dependence, import demand is by rule inelastic. An increase in tariff rates brings about relatively higher growth in prices and consequently, the net effect of a higher degree of protection has negative impact on the country as whole. And in reverse, a decrease in protectionism brings about a relatively higher fall in prices and increase in purchasing power. Therefore, these countries are recommended to lower tariff rates and the total degree of protection.
- In the period 1995-2000, after the Uruguay Round negotiations, the annual export in developing countries increased by 1,000 billion USD to the level of 2,400 billion USD. This primarily resulted from facilitated access to the markets of industrial and agricultural products and services market.

Advantages for the small and undeveloped

- There are a lot of claims that opening for foreign investments has bad effects on the country in question since foreign companies will exploit natural resources and cheap labor, introduce dirty and outdated technologies, outflow the capital from the country, affect the Government's work and economic policy creation according to their own interests. Such risk might exist, but the WTO in no way prevents the countries to take appropriate measures for their own protection. The WTO itself develops the mechanisms for wider control of transnational corporations work (TNC). On the other hand, there is no doubt that foreign direct investments (FDI), considering the lack of domestic accumulation and technology, have significant impact on the economic growth in developing countries in at least two ways. Firstly, they increase the reserves of capital in the country; secondly, companies with foreign investments by rule have higher productivity then domestic companies. On a sample of 69 developing countries, it was showed that FDI not only encourage growth, but also had more significant influence than domestic investments in that sense. FDI is the main source of the transfer of technologies, knowledge and development of management in the mentioned countries.

WTO develops the mechanisms for control of transnational corporations

In short, according to the opinion that is being emphasized by international organizations and the UN Secretary General "the poor are not poor because there is too much globalization, but because there is not enough of it"

6. Impacts on unemployment

- With less protection, some companies, even whole industries, fail and their employees remain temporarily unemployed.
- However, total expenses for sustaining such working posts are usually too high. In OECD countries, consumers pay about 300 billion USD per year, or 600,000 USD per one such working post, which to a great extent exceed the income per the employed.
- Therefore, it is far better to resolve the problem of redundant labor through an efficient social program (organizing re-training programs, improving skills of the employed, increasing mobility and flexibility of labor, stimulating small and medium enterprises development) then to protect working posts through high export barriers.
- On the other hand, trade liberalization significantly stimulates the growth of income and the volume of economic activities by initiating new companies and sectors, thus increasing employment opportunities, which will largely compensate lost working posts in inefficient industries.
- Introduction and application of new technologies require high-skilled labor.
- Branch offices of foreign companies by rule offer higher salaries then domestic companies (in Morocco these salaries are 1.9 times up, while in Venezuela the ratio is 1.5).
- New export sectors, directly and indirectly, absorb a large number of employed and offers higher salaries then domestic sectors. In the USA, the salaries in foreign trade companies are by 12-15% higher then the average salaries. The number of working posts directly connected to export, made 1/10 of total number of working posts in the USA (in industry even 1/5), 1/4 in Ireland and 1/3 in Canada.

Liberalization stimulates income and economic activity

7. Assistance in settling disputes

- The WTO is organized as a forum for settling trade disputes between states. The Dispute Settlement Body follows the procedures established within the WTO system and adopted by all members. The decisions of this body are mandatory while there are mechanisms of sanctions that provide implementation of the decisions.
- This way of dispute settlement contributes to the thrust among states and stands as a much more favorable solution for small countries then bilateral dispute settlement, where the opponent with more power may impose its will.
- Trade wars that cause harm to all sides are prevented. In history it often happened that such disputes evolved to open wars between states.

8. TRIPS (Trade-Related Aspects of Intellectual Propriety Rights)

This is another area on which the loudest debates are underway. The objections are largely directed to several points:

- For the first time, the same protection is applied on patents in the pharmaceutical industry as for all other patents.
- Protection of all patents last for 20 years.
- Patenting new breeds of plants and animals is allowed.
- Protection of intellectual propriety rights is, above all, in the interest of highly developed countries and TNC, which hold 97% i.e.90% of the total number of patents in the world.

At this point, it should not be forgotten that TRIPS largely does not set rules, but refers to the application of international conventions that usually regulate this issue. Furthermore:

- The importance of TRIPS primarily lies in the fact that it encourages innovations in all countries, since the innovators are guaranteed protected propriety rights and consequently, provides material compensation for the use of inventions.
- There are mechanisms that allow countries to have important pharmaceutical products without paying expensive licenses (providing that it is in the interest of people's health and protection):
  a) Compulsory licensing – the state issues a license for the production of a particular medicine on the domestic market without the patent holder's approval (although he had to be paid particular compensation).
  b) Parallel import – import of the patent product at the most favorable price that is offered, regardless of whether the patent holder agrees or not.

9. An impact on the government's work and state sovereignty

- It can be heard very often that the WTO represents a tool in the hands of powerful transnational corporations. This statement is hard to prove for at least two reasons: firstly, the TNC are not directly involved in the work of the WTO; secondly, even if they tried to pursue their influence through their governments, it is highly unlikely that they would have success, since decisions are made by consensus of all members.
- The WTO membership allows amortization of the pressure of interest groups on the work of the Government due to the mandatory conformation to the adopted rules and inability to meet individual requests.
- Space and opportunities for corruption are reduced owing to the elimination of quotas, facilitated customs procedure and publicly issued measures of foreign trade policy.
- Numerous criticisms of the WTO and other international organizations point out that the implementation of their rules violates the sovereignty of national states. It is true that the national states, joining such arrangements waive some traditional prerogatives and transfer them to a super-national organ; however, it is a voluntary decision aimed at achieving larger benefits. In addition, it should not be forgotten that the WTO in no way:
  a) Prevents countries from establishing the objectives of their foreign trade policy and applying permitted measures necessary to achieve these objectives.
  b) Forces countries to eliminate all import barriers;
  c) Imposes obligations to accept other countries' standards on safety and quality, but rather recommends application of international conventions.

Reduced opportunities for corruption

Advantages exceed shortcomings

Membership in the WTO

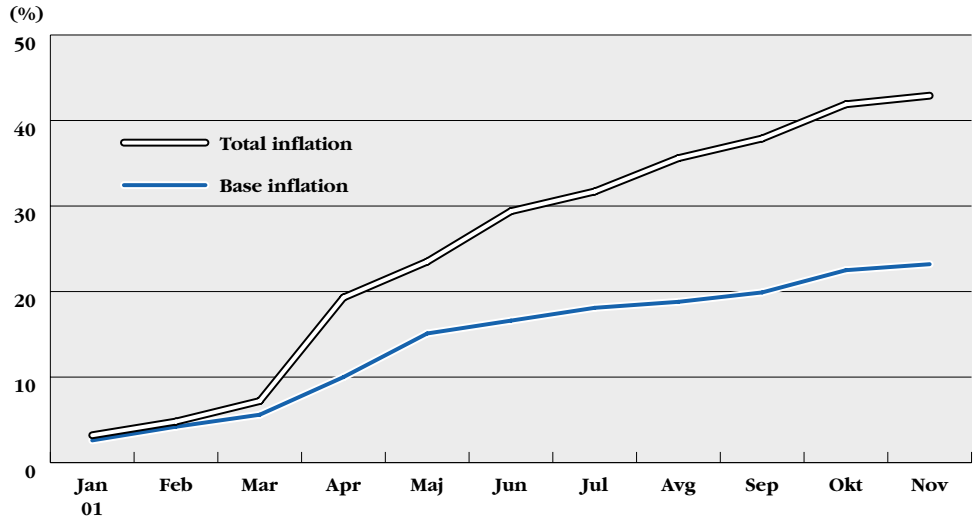
Membership in the WTO has some shortcomings and imposes some additional limitations; but they are far from advantages and opportunities that are given to the country that wants to build modern market economy and to join the European Union by the shortest rout. Accession to the majority circle of the world countries therefore stands as an imperative for Yugoslavia. The question is not if it should join the WTO, but what is the fastest way to achieve membership. After finishing the technical part of work related to the Memorandum in the first months of 2002, there comes the harder part on adjustment of the whole range of system laws, regulations and policies to WTO requirements. As Yugoslavia exceeded all expectations with its successful and fast implementation of reforms in the first year after democratic changes, this country can become a member of the WTO in an exceptionally short time, and benefit from the economic growth based on exports and inflow of knowledge, capital and direct foreign investments.

MACROECONOMIC REVIEW

Prices

According to official figures of the Republic Bureau of Statistics (RZS), retail prices in Serbia were up 1.6% in September. Total growth in retail prices for the period December 2000 – November 2001 amounted to 38.5%. The faster adjustment in the price of services continued, reaching an average growth of 5.3% in November. The most significant growth was registered in the price of transport and postal services (8.9%) and public utilities (4.3%) due to the additional increase in price of heating.

Total and Basic Inflation in Serbia Measured by Cost-of-Living



Total inflation in the year 2002 is projected at 20%. Adjustment of disparity in the rest of prices will remain the main accelerator of the next year's total inflation; while the share of transferred inflation is estimated at 50%. However, the price fluctuation of seasonal goods which have only a short-term effect without postponed impact on acceleration of total inflation rate, as well as flexibility of prices due to changes in relation between supply and demand for the given goods, will stand as very important elements in price corrections in the upcoming period. Recent fluctuation in prices of meat and meat products which increased by only 0.2% in November, after more significant increases in September and October, confirms that the market itself has restored its role in pricing. An obstacle in reaching and sustaining the projected inflation in the next year may be a further increase in expenses that will inevitably be built into retail prices.

Monthly Indices of Price

2001	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	I-XI
CPI	**103.2**	**101.5**	**102.3**	**111.3**	**103.5**	**104.7**	**101.8**	**102.9**	**101.8**	**102.9**	**100.7**	**142.9**
Foodstuff	100.8	100.1	103.0	110.0	104.4	101.6	101.4	104.2	103.0	101.6	100.2	134.4
Living Nutrition	99.4	100.9	106.6	117.3	102.0	103.0	101.7	109.0	103.2	100.6	100.1	151.9
Foodstuff [B]	101.7	99.6	100.5	105.2	106.1	100.6	101.2	101.0	102.8	102.3	100.2	122.8
Housing	113.9	102.6	102.7	127.6	101.2	119.1	100.5	99.9	100.3	108.0	100.7	202.3
Electricity	100.1	100.0	100.0	159.3	100.0	139.7	100.0	100.0	100.0	111.7	100.0	248.7
Utilities	189.3	108.4	101.9	102.1	103.4	100.6	100.4	102.0	101.5	100.0	100.3	231.6
Rent [B]	111.0	104.4	106.4	94.3	102.2	97.9	101.3	99.2	100.3	105.5	101.7	135.4
Transport and Telecom	103.5	104.5	100.0	109.4	100.3	102.5	118.5	118.6	100.8	100.2	107.5	185.7
CPI [B]	**102.6**	**101.5**	**101.3**	**104.2**	**104.6**	**101.3**	**101.3**	**100.6**	**101.6**	**102.7**	**100.6**	**123.2**

Note: Consumer Price Index [B] (CPI [B]) represents a basic inflation indicator. It has been calculated on the basis of the CPI, from which bred, meat and milk, electric power, public utilities, transport and postal services have been deducted. In total, 33.4%

Source: Republic Bureau of Statistics

Costs of living in Serbia in November displayed a slower growth than retail prices, reaching a figure of 0.7%. Monitoring this inflation indicator in the last two months points to deceleration in its dynamics. Total growth in costs of living in November was influenced mainly by a significant increase in the price

of services that averaged 4.4%. As for the price of services in November, the fastest growth was registered in the prices of transport and postal services, reaching an average monthly growth rate of 7.5%. A high growth rate in transport services resulted from a correction in the disparity of prices in this group.

Total growth in the costs of living since December 2000 is 42.9%. The cost-of-living growth in the period December 2000 – November 2001 was mainly influenced by increases in prices of electric power and public utilities. However, the vary fact that the balance in prices of these goods have not been reached yet points out that they are significantly underrated and further correction in their prices is to be expected in the upcoming period.

Basic inflation, measured as a total growth in the price of goods and services within the costs of living after excluding three groups that have the most significant impact on the total cost-of-living growth in the period December 2000 – November 2001 amounted to 23.2%. This indicator shows that less than 50% of total inflation measured by cost-of-living units resulted from correction of disparity in prices of the basic inflation generators.

One of the prerequisites for maintaining macroeconomic stability as a priority set forth by the economic policy in 2002, is reducing the price growth to the limits which will not stand as a threat of exerting inflationary pressures. Consequently, pursuing an appropriate exchange rate policy and maintaining its stability will be of great importance. The direct causal connection between inflation and the foreign currency exchange rate that affect the overall macroeconomic balance was confirmed by numerous econometric assessments of the structural relations between these two variables.

Wages

The average nominal net wage in Serbia in November (without working hours meal allowance and transport compensation) was 6,869 dinars or 224 DM applying the accounting method effective until June 1, or 7,729 dinars or 252 DM according to the new methodology. The average gross wage in the same month was 11,101 dinars or 362 DM. The November average net wage recorded a growth of 4.0% (expressed in DM) according to both new and old methodology relative to October, while the nominal net wage in November was up by 4.8% (according to the old accounting method) or 4.3% (according to the new method) compared to December. The difference between the nominal net wages according to the previous and the new calculation methods was 11% this month. Real purchasing power of wages, expressed in cost-of-living units, continued to grow, displaying an increase by 4% in November relative to October. The average net wage for the period January – November 2001 showed a real increase of 10.6% compared to the same period last year, while real wages in November were up 43% year-on-year. The quality of life has been improved in this year, which is showed by the fact that the consumer basket was worth 2.8 average wages in November last year, as compared to the 1.8 average wages in November this year. It is expected that the announced abolishing of sales tax (as of January 2002) on basic foodstuff (meat, fish, fruit and vegetables) will raise the population's living standard.

Outlook of Purchasing Power

	Consumer Basket		PPP €	Exchange rate of € (08.01)	Valuation of domestic currency to dinar
	domestic currency	€			
Serbia	171	2.87	59.53	59.53	0%
Croatia	23	3.10	8.01	7.41	8%
Macedonia	164	2.69	57.09	60.96	-6%
Slovenia	850	3.84	295.91	221.62	34%

The consumer basket is composed of 1kg bread, sugar 1kg, pasteurized milk 1l, cooking oil 1l

Labor Market

The unemployment rate in October in the FRY was 30% - 29.3% in Serbia and 39.1% in Montenegro. The unemployment rate in Serbia was up by 6.1% year-on-year. The number of unemployed in November was 780,000, a 6.8% increase relative to the same month last year. Women comprise 55.9% in the gender structure of the unemployed, while 43.8% of unemployed are under 30.

As for the educational structure of the unemployed, over the period January – November 2001, 39% of unemployed were of low qualifications and 61% of unemployed were qualified persons.

The number of vacancies registered at the Republic Bureau for Labor Market in November was 44,450, 16.2% growth relative to the same period last year. 77% of the total number of registered vacancies in November were filled monthly through permanent employment.

An increase in the number of unemployed receiving pecuniary compensation continued. According to the latest data for September, there were 53,562 pecuniary compensation beneficiaries, showing an increase of 12.8% year-on-year. In the structure of beneficiaries, the biggest share was held by those receiving pecuniary compensation as the redundancies, registering growth of 23.7% relative to the same month last year. It is projected that the number of these beneficiaries will reach the figure of 60,000 persons over the nest year.

Industrial Production

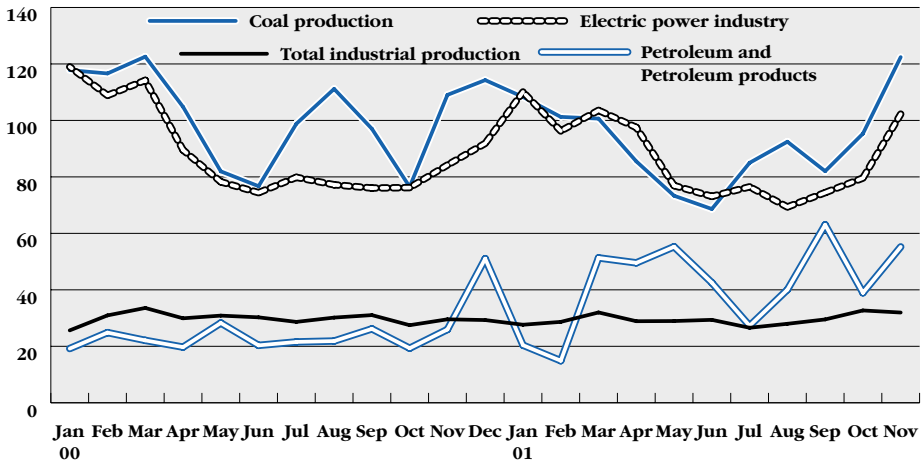
Industrial production in FRY in November was down 2.3% month-on-month. In Montenegro, production was up 5.3%, while in Serbia it was down 2.8%. In Central Serbia production rose by 1.8%, while in Vojvodina it fell by 10.1%. The de-seasonalized index for November shows growth of 3% month-to-month. Since the de-seasonalized index for November registered a 6.1% growth year-on-year, if in the course of next month's de-seasonalized series an average volume of production from the previous year is achieved, the production in 2001 will be at the level of the year 2000's production, as it had been projected.

Industrial production in FRY in November was up by 6.3% relative to the same month last year. Year-on-year in Serbia it increased by 7.5%, while in Montenegro it decreased by 9.7%. In Central Serbia, industrial production was up 4.7%, while in Vojvodina it rose 13.1%.

Industrial production in FRY over the period January – November 2001 was down 0.7% compared to the same period last year. In Serbia, a decrease of 0.6% was registered, whereas in Montenegro it dropped by 2.5%. In Central Serbia, industrial production was down 5.0%, while in Vojvodina it rose 9.7%.

Ore and rock mining registered growth of 3.5% month-on-month; industrial processing was down by 9.0%, while the production of energy, gas and water was up 28.4%. The highest growth was achieved in coal mining (28.5%) and the production of coke and petroleum and petroleum products (40.7%).

Industrial Production by Volume (average 1989=100)



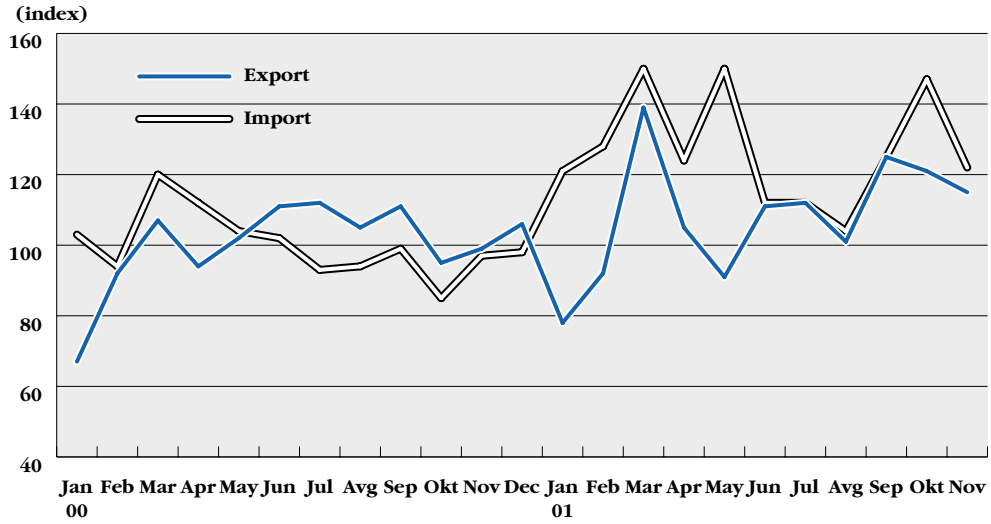
Foreign trade

Trade between Serbia and foreign countries in November was valued at 148 million USD, which means that it exceeded the figure of 1.5 billion USD for the first eleven months of this year. In both cases, growth was registered relative to the same period last year. The value of commodity imports increased as well, and is still higher than exports. (Total exports increased by 8%, while total import was up by 26% year-on-year). Commodity imports in November were

valued at 336 million USD, making a total of over 3.8 billion USD for the first eleven months of this year.

In the course of December, the G17 Institute conducted research with an attempt to determine, on the basis of the analysis of time series data, factors that affected Yugoslav import trends over the previous years. The analysis used the same time series of real variables for the period January 1996 – October 2001. It examined the impact of foreign exchange rate on exports and foreign trade deficit, the impact of imports on industrial production, as well as the impact of industrial production on exports in the FRY.

Export and Import in Serbia (average 2000=100)



The results of the econometric analysis point to several conclusions. Firstly, foreign exchange rate trends did not have a significant impact on export trends over the monitored period. On the other hand, changes in the foreign currency exchange rate level affected the foreign trade balance through changes in import validity, in the way that depreciation of real foreign currency exchange rate basically led to an increase in the foreign trade deficit, while appreciation led to its decrease. Secondly, imports stood as a major determinant of industrial production, which is an expected result considering the very high import-dependence of our economy. Finally, the key determinant of the export volume was the dynamics of industrial production, but also a volume of exports in the previous period.

Accordingly, the Yugoslav economy should not seek the improvement of its export performances in changing the foreign currency exchange rate, simply because those changes have not had a significant impact on its competitive position so far. Short-term export growth can be achieved primarily by raising the volume of industrial production. However, in order to achieve long-term positive effects, internal efficiency of our companies must be improved to relieve production from very high costs. For long-term and mid-term effects, it will be necessary to pursue deep structural changes in order to adjust domestic export goods supply to the requests of foreign import goods demand, as well as to direct export to the areas where we have or could have comparative advantages. As the analysis shows, so far such areas have been the following: non-ferrous metals, clothing, footwear and rubber products.

In the July issue of the Review, we compared the purchasing power of particular national currencies of the states in this region in relation to the dinar, with the Big Mac hamburger as the only item in the consumer basket. This time, we have applied the same methodology, but the comparison of the purchasing power of national currencies was based on a consumer basket containing the following products: 1l cooking oil, 1l pasteurized milk, 1kg sugar and 1kg of bread. The results point to the fact that only Slovenia has an overvalued currency in relation to the dinar (of course, only on the basis of these four products), which means that for purchasing the same group of products,

in Slovenia it is necessary to spend 1/3 more euros than in Serbia. The situation in the other two examined former Yugoslavia republics is different, with purchasing power of euro similar to that in Serbia.

Monetary and Fiscal Policy

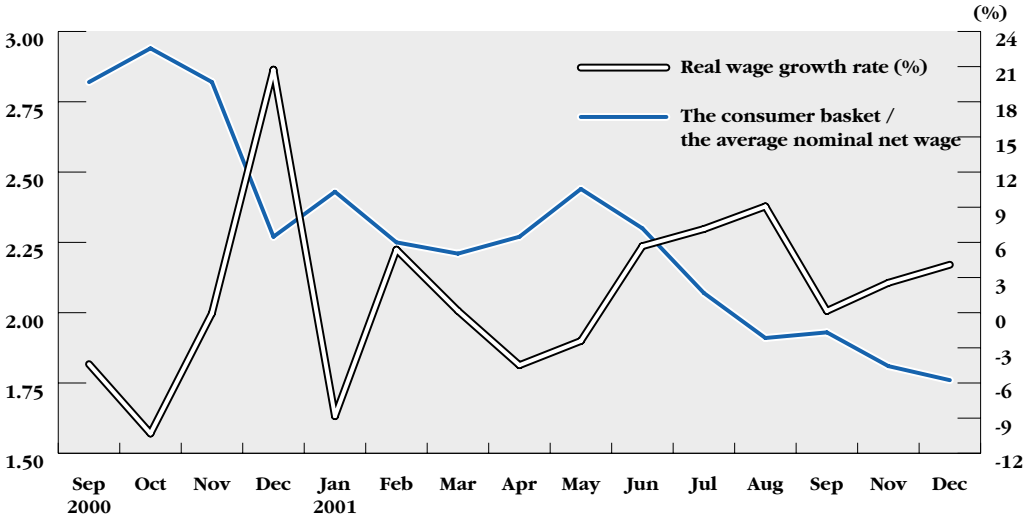
The money supply M1 at the end of November amounted to 56.94 billion dinars, displaying an increase of 0.96% relative to the end of October. This rate was significantly lower then it had been before, when M1 used to be on the increase by rates over 7% per month, which implied that the remonetization of the economy was well under its way. Real M1 at the end of November was 1.837 billion DEM, which is slightly less then at the end of October, when it amounted to 1.842 billion DEM. For comparison, the average M1 for 2000 was 1.043 billion DEM. Such immense growth of real M1 resulted from higher real demand for dinars by economic actors, implying that the national currency was gaining confidence.

The National Bank of Yugoslavia (NBJ) credited the budget of the Republic of Serbia with the amount of 1 billion dinars in November. Through foreign exchange transactions performed by the NBJ, 345 million dinars were withdrawn and its primary issue was 652.5 million dinars thereof. As over the whole 2001, new dinar credits to the banks or enterprises based on primary issue were completely excluded.

Money supply in November was fully covered by foreign exchange reserves. M1 coverage at the end of November was 128.8% thus displaying a slight increase relative to the end of October (126.8%).

At the Belgrade exchange, the average weighed interest rate on short-term securities continued to decrease, being 4.11% in November relative to 4.17% in October. This decrease is insignificant, especially regarding the fact that the interest rates are still very high. Such high interest rates spring from a huge investment risk, indicating that a significant decrease of interest rate will be achieved only when the institutions of a market economy that provide the security of the creditors are fully established.

Consumer Basket and Average Net Salary Ratio, and Real Wages Growth



Gross public revenue collection in November amounted to 35.49 billion dinars, which is approximately the same amount as in October (35.5 billions). The revenues of the budget and other users were reduced from 23.15 in October to 22.55 billion dinars in November, while the revenue of social insurance organizations registered an increase from 12.35 to 12.94 billion dinars.

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